



**U.S. DEPARTMENT OF JUSTICE**  
Antitrust Division

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March 26, 2013

Garrard R. Beeney  
Sullivan & Cromwell LLP  
125 Broad Street  
New York, New York 10004-2498

Re: Intellectual Property Exchange International, Inc. Business Review Request

Dear Mr. Beeney:

This letter responds to your request on behalf of IPXI Holdings, LLC and Intellectual Property Exchange International, Inc. ("IPXI"),<sup>1</sup> as amended,<sup>2</sup> pursuant to the Department of Justice's Business Review Procedure, 28 C.F.R. §50.6, for a statement of the Department's present enforcement intentions regarding the planned exchange for unit license rights ("ULRs") to defined sets of patents. Due to the inherent uncertainties and potential competitive concerns associated with IPXI's novel business model that are discussed in detail below, the Department declines to state its present enforcement intentions regarding IPXI's proposal at this time. We simply do not know enough to conclude that IPXI's activities, once operational, will not raise competitive concerns.

### **I. The Proposed IP Exchange**

IPXI is a financial exchange developed with input from corporate, university, and laboratory IP owners and designed to facilitate patent licensing based upon "market-based principles, including transparency, price discovery, efficiency, and liquidity."<sup>3</sup> IPXI proposes to (i) receive offers of interest from patent holders from various industries to license their patents through IPXI; (ii) fully review the patent rights at issue by examining validity, current

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<sup>1</sup> Letter from Garrard R. Beeney, Partner, Sullivan & Cromwell LLP, to Renata B. Hesse, Acting Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice (Nov. 30, 2012) [hereinafter IPXI Request]. IPXI is a wholly owned subsidiary of IPXI Holdings, LLC.

<sup>2</sup> Email from Garrard R. Beeney, Partner, Sullivan & Cromwell LLP, to Matthew Mandelberg, Att'y, Antitrust Div., U.S. Dep't of Justice (Jan. 18, 2013, 14:05 EST) [hereinafter IPXI Amendment].

<sup>3</sup> IPXI Request, *supra* note 1, at 1-2; *id.* Ex. A, IPXI Market Rulebook, Rule 100 [hereinafter Market Rulebook].

infringement, and other issues; (iii) determine market interest to license those patents; and (iv) offer ULRs, standardized licenses for defined sets of patents under terms and conditions set jointly with patent holders. As explained below, ULRs will initially become available through direct purchases from IPXI on its primary market and may also be obtained from third parties through a secondary trading market maintained by IPXI.

IPXI has a board of directors that is advised by an Executive Committee, which oversees the work of the Rules Committee, Selection Committee, Business Conduct Committee, Enforcement Committee, and Market Operations Committee.<sup>4</sup> IPXI has several classes of members, defined by their role on the exchange, and members are eligible to be appointed to IPXI's committees. Any bona fide entity that purchases a ULR may become a "purchasing member" of the exchange without paying an entrance fee. IPXI will have the authority to audit its members to ensure compliance with its rules and procedures.

#### A. The Unit License Right

IPXI's goal is to convert patent licenses into a standardized, transparent, tradable instrument called the ULR. A ULR is a contract that licenses specific patents from sponsoring patent holders, which is listed and sold on IPXI's exchange. ULRs are structured as non-exclusive sublicenses "to make, have made, use, sell, or offer for sale" a single "unit" of a product in accordance with the ULR's field of use.<sup>5</sup> In other words, each unit of a product that practices patents in a ULR requires the acquisition of one ULR in order for it to be a licensed product under IPXI's system.

After the patents in a ULR are practiced to create, use, or sell a single unit in accordance with the field of use, the ULR is retired or "consumed." Sublicensees will report consumption to IPXI quarterly.<sup>6</sup> Before a ULR is consumed, the purchaser of a ULR may hold the instrument or sell it to another party through a trade executed on IPXI's secondary market.

#### B. Preparing a ULR for Offer

IPXI intends to acquire exclusive licenses from patent holders in many different industries to sublicense patents through ULRs within defined fields of use. The exclusive license

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<sup>4</sup> IPXI Request, *supra* note 1, at 4-6. The Rules Committee prepares and modifies the rules of the exchange. The Selection Committee reviews, investigates, and recommends acceptance or rejection of proposed new ULR offerings for the exchange. The Business Conduct Committee investigates violations of exchange rules or ULR contracts and conducts audits of ULR purchases. The Enforcement Committee investigates patent infringement and recommends whether enforcement actions may be taken by the patent holder. The Market Operations Committee manages the development and operation of the exchange and reports potential violations of the exchange's rules to the Business Conduct Committee.

<sup>5</sup> *Id.* Ex. H, ULR Unit Sublicense Agreement § 2.1.

<sup>6</sup> Market Rulebook, *supra* note 3, Rule 406 (reporting deadlines will generally be thirty days after each calendar quarter).

granted to IPXI by a patent holder<sup>7</sup> may be restricted to particular uses, or unrestricted and therefore cover all uses.<sup>8</sup>

*The Review Process.* After a patent holder formally submits its patents for review, IPXI will conduct a multistage review of the marketability and validity of the patents proposed for a ULR.<sup>9</sup> Before offering a ULR, IPXI's due diligence will include gathering information about prior art, valuation, and marketing of the patents.

If IPXI decides to proceed after reviewing an offer, the patent holder will grant IPXI an option for an exclusive license to the relevant patents, and IPXI will prepare a draft "Offering Memorandum" for the ULR.<sup>10</sup> The draft Offering Memorandum will include a description of the technology and fields of use, the extent of the license grant, what constitutes "consumption" of a single ULR, the material terms governing price and volume for ULRs on the primary market, the prior licensing history of the patents, and the extent of any amnesty that will be given to prior infringers of the underlying patents.<sup>11</sup> IPXI will then contact potential licensees with its draft Offering Memorandum through a marketing "roadshow."<sup>12</sup> Draft and final Offering Memoranda, as well as other information gathered during the review process (but not user-specific information), will be available to IPXI members through a data room.

Based on the information IPXI collects both through the roadshow and its own due diligence, IPXI and the patent holder jointly will make final decisions on whether to make the offering and on how to list the ULR, including on terms that govern price and volume of the ULRs offered for sale.<sup>13</sup> Finally, IPXI will exercise its option to be granted an exclusive license within the defined fields of use to the patents, including the right to grant sublicenses in the form of ULRs.<sup>14</sup>

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<sup>7</sup> IPXI refers to patent holders who offer patents on its exchange as "sponsors." IPXI Request, *supra* note 1, at 5 n.5.

<sup>8</sup> Email from Garrard R. Beeney, Partner, Sullivan & Cromwell LLP, to Matthew Mandelberg, Att'y, Antitrust Div., U.S. Dep't of Justice (Feb. 12, 2013, 12:09 EST). If the license is restricted, the patent holder would retain the independent right to license its patents for uses that fall outside IPXI's licensed field.

<sup>9</sup> IPXI Request, *supra* note 1, at 7-8; *id.* Ex. B, IPXI Guidelines & Procedures 7-9 [hereinafter Guidelines & Procedures]. In addition to detailing validity, uses, and encumbrances on the patents, the initial submission will suggest market demand and pricing terms.

<sup>10</sup> IPXI Request, *supra* note 1, at 8; Guidelines & Procedures, *supra* note 9, §§ 2.4-.5. As part of the option, IPXI and the patent holder will define what constitutes a successful offering. IPXI Request, *supra* note 1, Ex. F, Exclusive License Option Agreement § 2.3 [hereinafter Exclusive Option Agreement]. Additionally, the patent holder will owe "commitment fees" at this time. Guidelines & Procedures, *supra* note 9, § 2.6.

<sup>11</sup> IPXI Request, *supra* note 1, at 9.

<sup>12</sup> *Id.* at 8.

<sup>13</sup> *Id.* Until IPXI exercises its option, a patent holder may withdraw its patents from consideration by paying a fee. *Id.* Ex. E, Submission Agreement § 8.2; Exclusive Option Agreement, *supra* note 10, § 9.2.

<sup>14</sup> IPXI Request, *supra* note 1, at 9; *id.* Ex. G, Exclusive License Agreement. IPXI will assign its exclusive rights to a wholly-owned special purpose vehicle that will issue the ULRs. IPXI Request, *supra* note 1, at 9.

*Packaging and Pooling Patents into a ULR.* When IPXI packages multiple patents into a single ULR, IPXI rules require that all patents included in the ULR be “reasonably relevant or beneficial” to the ULR’s field of use.<sup>15</sup> In addition, if IPXI integrates patents from two or more non-affiliated patent holders into a single ULR (what it has termed, “pooled ULR Contracts”), IPXI will require that each patent holder makes its patents available in separate à la carte ULR offerings.<sup>16</sup>

These à la carte offerings will not be required of each patent holder if a pooled ULR’s field of use is coextensive with a published technical standard. Instead, the patents included in such ULRs must be “necessary on technical or commercial grounds to conform to or implement the published technical standard (an ‘essential patent’).”<sup>17</sup> IPXI will require the patent holder to obtain an independent expert opinion that confirms essentiality. The patent holder may provide an opinion that already has been obtained or obtain a new opinion from an expert that IPXI believes is both capable and independent. IPXI staff will review these determinations.<sup>18</sup>

*Competing ULRs.* IPXI has proposed mechanisms to identify ULRs that may compete with each other, and IPXI has represented to the Department in an amended submission that it will not permit competing ULR offerings on the exchange.

IPXI will rely on its attorneys and staff to examine the field of use in each proposed ULR to determine whether products derived from its field of use are likely to be competitive with or a substitute for any other product made through the field of use of a ULR being separately considered or already offered by IPXI.<sup>19</sup> This analysis will take into account prices, the intended use of ULRs, and other factors to identify substitutes that offer an “equivalent functionality and equivalent achievement of business goals.”<sup>20</sup> IPXI will not simultaneously list two competing ULRs it has identified as substitutes on its exchange.<sup>21</sup>

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<sup>15</sup> Market Rulebook, *supra* note 3, Rule 501.

<sup>16</sup> *Id.* Rule 502. The review process for a pooled ULR is similar to the process for preparing a ULR with patents from a single patent holder. All patent holders must jointly agree with IPXI to the terms of a pooled ULR. For à la carte offerings, only the contributing patent holder must agree to terms with IPXI. Email from Garrard R. Beeney, Partner, Sullivan & Cromwell LLP, to Matthew Mandelberg, Att’y, Antitrust Div., U.S. Dep’t of Justice ¶ 11 (Jan. 15, 2013, 13:23 EST).

<sup>17</sup> Market Rulebook, *supra* note 3, Rule 503.

<sup>18</sup> Email from Garrard R. Beeney, Partner, Sullivan & Cromwell LLP, to Matthew Mandelberg, Att’y, Antitrust Div., U.S. Dep’t of Justice (Feb. 12, 2013, 12:09 EST).

<sup>19</sup> IPXI Request, *supra* note 1, at 18.

<sup>20</sup> Market Rulebook, *supra* note 3, Rule 601; IPXI Request, *supra* note 1, at 18.

<sup>21</sup> IPXI Amendment, *supra* note 2. IPXI has represented that this amendment will not apply to the à la carte offerings required from patent holders in pooled ULRs.

### C. ULR Transactions on IPXI

After a ULR has been assembled and marketed, IPXI will make available a limited number of ULRs on its primary market at any given time. All pre-determined terms of the IPXI model described below will be published in advance for potential licensees in the Offering Memorandum. Revenue from ULR sales on IPXI's primary market will be divided with IPXI typically retaining 20 percent and 80 percent going to the patent holders.<sup>22</sup>

IPXI will typically proceed by offering the ULR in three tranches, with the promise of follow-on offerings as necessary.<sup>23</sup> The first two tranches will be discounted relative to the third offering so as to encourage purchases. The ULRs in each successive tranche become available only after all ULRs in the previous tranche have been sold on the primary market. IPXI will commence a secondary trading market for a particular ULR after the first tranche has sold out. The discounted first tranche is intended to sell out quickly. These three tranches are intended to meet demand for the patents in a ULR.<sup>24</sup>

To prevent market distortions, IPXI will establish position limits for members that plan to trade in a particular ULR on the secondary market but not practice its patents.<sup>25</sup>

### D. Enforcement and Amnesty

IPXI represents that its platform is intended to provide a licensing environment that is free from constant threats of litigation. However, a user of ULR patents that refuses a license may be subject to an enforcement action. If intellectual property is infringed after it has been listed as a ULR on IPXI, an enforcement action may proceed, but only if both IPXI and the patent holder agree that enforcement is warranted.<sup>26</sup> IPXI will limit its share of the recovery from any award to attorney's fees and the amount required to bring an infringer into retroactive compliance through the purchase of ULRs (any remaining balances are paid to the patent

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<sup>22</sup> IPXI Request, *supra* note 1, at 11.

<sup>23</sup> *Id.* at 9-10.

<sup>24</sup> If IPXI underestimates demand for a ULR, follow-on offerings will become available, as needed, if certain conditions are met (e.g., all tranches are sold out and a certain percentage of ULRs have been consumed). If IPXI overestimates demand (e.g., ULRs are not selling on the primary market, few ULRs are available on the secondary market, but ULRs will sell at a lower price), IPXI may authorize patent holders to re-price ULRs in consultation with IPXI. *Id.* at 11; Market Rulebook, *supra* note 3, Rule 202.E(4).

<sup>25</sup> IPXI Request, *supra* note 1, at 11. IPXI distinguishes between "operational users" who intend to practice the patents in a particular ULR and "liquidity providers" who will trade in but not consume that particular ULR. IPXI has additional prohibitions and tools to ensure an efficient exchange that applies to all IPXI members. *E.g.*, Market Rulebook, *supra* note 3, Rule 410(b) (prohibiting any member from manipulating or attempting to manipulate the price of a ULR).

<sup>26</sup> IPXI Request, *supra* note 1, at 21.

holders).<sup>27</sup> IPXI will also make arbitration and mediation available as an alternative to litigation.<sup>28</sup>

For IP infringement that predates listing with IPXI, the patent holder may elect to offer total amnesty, partial amnesty by which past infringement may be forgiven through purchases on the exchange, or no amnesty.<sup>29</sup>

#### E. Information Sharing and Conflicts of Interest Rules

IPXI proposes to limit information sharing among members of the exchange.<sup>30</sup> IPXI prohibits patent holders from communicating with one another about the price or quantity of ULR contracts in their offerings. In addition, IPXI members and staff are barred from disclosing confidential or material nonpublic information obtained in connection with their role on IPXI. Moreover, IPXI will only publish consumption data if the information is aggregated and individual entities cannot be identified.<sup>31</sup>

IPXI members and staff must disclose conflicts of interest when sitting on committees or working on particular matters.<sup>32</sup> Following such a disclosure, a person may not participate in deliberations or vote on the matter, but he or she may participate in deliberations under special circumstances, if it is approved by the Executive Committee.

## II. Analysis

In the absence of evidence that the exchange is a sham designed to cloak collusion, the Department will examine the potential competitive benefits of the exchange as well as its potential harms to competition.

#### A. Efficiencies

IPXI's proposed exchange potentially could generate efficiencies for the IP marketplace and encourage innovation through increased licensing efficiency, sublicense transferability, and greater transparency.

*Increased Licensing Efficiency.* IPXI's proposal has the potential to facilitate more efficient licensing by increasing transparency regarding the patents in a URL and obviating the

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<sup>27</sup> *Id.* at 22.

<sup>28</sup> *Id.* at 20.

<sup>29</sup> *Id.* at 9; Guidelines & Procedures, *supra* note 9, § 2.11.

<sup>30</sup> IPXI Request, *supra* note 1, at 17-19.

<sup>31</sup> *Id.* at 11.

<sup>32</sup> *Id.* at 6-7; Market Rulebook, *supra* note 3, Rule 204(e).

need for costly bilateral negotiations. Identifying and evaluating patents that may be relevant to a firm's products can be a very expensive endeavor, especially in industries where licenses may be required for numerous patents and from numerous patentees. IPXI's upfront due diligence on the underlying patents and the publication of its findings may reduce the need for licensees to replicate its efforts. These efficiencies may also benefit rights' holders who currently expend resources to establish a licensing program. In addition, the standardized, arms-length transactions on both the primary and secondary markets may reduce licensing transaction costs throughout the life cycle of the licensee's downstream product and obviate the need for some firms to engage in costly negotiations for bilateral portfolio licenses. Thus, IPXI has the potential to benefit both patent holders and users of technology with lower transactions costs and more efficient matching of licensors and licensees. The result may produce savings for downstream consumers.

*Price Transparency.* Informational asymmetries characterize many aspects of the IP marketplace, making it challenging for a potential licensee to assess the value of a particular technology or the going market rate for a license. The terms of many licensing deals are kept confidential. By contrast, primary market prices for the first three tranches for a ULR will be listed in advance, and market demand for the ULRs at different prices will emerge over the course of an offering. By increasing price transparency, licensees may be able to manage their IP budgets with more precision and make efficient research and development decisions that lower overall costs.

Price transparency may be important even for patents that are encumbered by a commitment to license on (fair,) reasonable, and nondiscriminatory ("F/RAND") terms.<sup>33</sup> Standard-setting organizations play a vital role in many technology markets and regularly rely on F/RAND commitments to encourage adoption of a standard. Unfortunately, it sometimes can be difficult to determine whether patents were in fact offered on F/RAND terms because price transparency is lacking. If IPXI's model can facilitate and advance F/RAND licensing, it may generate significant efficiencies.

*Pooled ULRs.* IPXI's exchange plans to create what it has termed "pooled ULR contracts" that will aggregate patents from multiple patent holders in a variety of industries. IPXI's platform for pooled ULRs has the potential to generate additional efficiencies by reducing the time and expense of acquiring and disseminating all the pooled patents to potential licensees, reducing the amount of stacked royalties,<sup>34</sup> clearing blocking positions,<sup>35</sup> and integrating technologies that are necessary to practice an industry standard or a field of use.

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<sup>33</sup> A patent holder may voluntarily agree to license a patent essential to the standard on reasonable and non-discriminatory (RAND) terms or fair, reasonable, and non-discriminatory (FRAND) terms while participating in standards-setting activities at a standards-setting organization.

<sup>34</sup> "Royalty stacking" refers to situations in which a single product potentially infringes on patents held by multiple owners, each of whom imposes a separate royalty burden. Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1993 (2007). Royalty stacking may result in higher fees than if a single owner licensed all of the patents. *See id.* at 2010-17.

## B. Potential for Competitive Harm

In addition to the efficiencies it may generate, IPXI's request raises antitrust issues that include (1) the pooling of patents from multiple patent holders, (2) the listing of competing ULRs, and (3) the sharing of competitively sensitive information. Given the nature of IPXI's novel business model, the Department also recognizes that other potential competitive concerns may later emerge once it is operational. Below, the Department discusses risks of competitive harm, the potential effectiveness and limitations of IPXI's safeguards, and a number of uncertainties that remain.

### 1. Pooling Patents Into a ULR From Multiple Patent Holders

*Substitutes and Complements within a Pooled ULR.* In addition to the potential efficiencies identified above, pooled ULRs may also create competitive risks.

The Department has greater confidence assessing the competitive effects of patent pools when patent holders contribute only complementary patents<sup>36</sup> because “[c]ombin[ing] complementary factors of production . . . is generally procompetitive.”<sup>37</sup> The pool may have the procompetitive effect of reducing the total royalty rate to licensees, thereby lowering the final product cost to consumers. In contrast, a pool that includes substitute (i.e., competing) patents may be able to raise royalty fees and “[can] raise competitive concerns”<sup>38</sup> by reducing competition among the patented technologies. It may, however, be reasonable to include substitute patents in a pool if, for example, the inclusion of substitute patents does not enhance market power or if the pool creates significant efficiencies that outweigh the risks of competitive harm.<sup>39</sup>

IPXI's rules limit all ULRs, including pools, to include only patents that are “reasonably relevant or beneficial” to the ULR's field of use. IPXI has represented that this definition, as

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<sup>35</sup> Patents are in a “blocking position” when a firm cannot practice a second patent without infringing upon the first. *See, e.g., CHARLES RIVER & ASSOCS. LTD., REPORT ON MULTIPARTY LICENSING 6-7 (2003), available at [http://ec.europa.eu/competition/antitrust/legislation/multiparty\\_licensing.pdf](http://ec.europa.eu/competition/antitrust/legislation/multiparty_licensing.pdf).*

<sup>36</sup> “Complementary” technologies perform different functions and are used collectively to produce a licensed product. U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 77 (2007), *available at <http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf>* [hereinafter 2007 ANTITRUST-IP REPORT].

<sup>37</sup> U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 2.0 (1995), *available at <http://www.justice.gov/atr/public/guidelines/0558.htm>*.

<sup>38</sup> 2007 ANTITRUST-IP REPORT, *supra* note 36, at 77. *See* Letter from Joel I. Klein, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, to Carey R. Ramos, Partner, Paul, Weiss, Rifkind, Wharton & Garrison LLP, at 11 (June 10, 1999), <http://www.usdoj.gov/atr/public/busreview/2485.pdf> [hereinafter 6C DVD Business Review].

<sup>39</sup> 2007 ANTITRUST-IP REPORT, *supra* note 36, at 77-78.



designed, will not exclude substitute (i.e. competing) patents if IPXI determines that they could be beneficial and relevant to a ULR's field of use.

IPXI cannot predict in advance the patents or markets that might be subject to a pooled ULR. Consequently, the Department is unable to engage in the fact-intensive analysis necessary to assess the likely competitive effects of IPXI's pooled ULRs, which may include substitute patents.<sup>40</sup>

*Offering Patents Separately From Pooled ULRs.* Having the option to license independently of a pool can mitigate the effects of potential market power.<sup>41</sup> For example, independent licensing can encourage competition and create incentives for innovators to invent around some of the patents in a pool. Efficiencies from licensing outside of a pool are more likely when the transaction costs of negotiating with multiple licensors are not prohibitive.<sup>42</sup> Patents in a pooled ULR may be available outside the pool, either (a) in a ULR from each patent holder or (b) from a patent holder for uses outside those granted to IPXI. However, these mechanisms may not reproduce the potential competitive benefits of independent licensing options that could be available if the patent holder's grant to IPXI were nonexclusive.

Although IPXI will guarantee that the contribution of each patent holder to a pool can be licensed à la carte in separate ULRs on the exchange, the proposal would not provide for independent licensing for the licensed field of use outside of the exchange.<sup>43</sup> IPXI and each patent holder will jointly set the terms in the Offering Memoranda for the à la carte offerings. Together, IPXI and all the contributing patent holders will agree to the terms for the pooled

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<sup>40</sup> In previous business reviews, patent pools have minimized the competitive risks with safeguards to exclude substitute patents from the pool. Letter from Thomas O. Barnett, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, to William F. Dolan & Geoffrey Oliver, Partners, Jones Day, at 4-5 (Oct. 21, 2008), <http://www.justice.gov/atr/public/busreview/238429.htm> [hereinafter RFID Business Review]; Letter from Charles A. James, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, to Ky P. Ewing, Partner, Vinson & Elkins LLP, at 6 (Nov. 12, 2002), <http://www.usdoj.gov/atr/public/busreview/200455.pdf>; 6C DVD Business Review, *supra* note 38, at 3-5; Letter from Joel I. Klein, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, to Garrard R. Beeney, Partner, Sullivan & Cromwell LLP, at 4-5 (Dec. 16, 1998), <http://www.usdoj.gov/atr/public/busreview/2121.pdf>; Letter from Joel I. Klein, Acting Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, to Garrard R. Beeney, Partner, Sullivan & Cromwell LLP, at 9-10 (June 26, 1997), <http://www.usdoj.gov/atr/public/busreview/215742.pdf>.

<sup>41</sup> 2007 ANTITRUST-IP REPORT, *supra* note 36, at 78-80.

<sup>42</sup> *Id.* at 80. But, note in some circumstances a pool with the exclusive right to license the underlying patents can be procompetitive, for example when they incentivize investments in complementary assets (e.g., when complementary patents would be subject to free-riding absent the exclusive license). *Id.* at 79-80.

<sup>43</sup> For example, if patent holder A contributes patent 'a' to a pool and patent holder B contributes patent 'b', then three ULRs will be traded on IPXI: ('a'), ('b'), and ('a', 'b'). By contrast, in previous business reviews of patent pools, the pools did not acquire the exclusive rights to license the patents, but the pools also did not guarantee that separate licenses would be available after potentially costly bilateral negotiations. *Id.* at 80. See also Complaint ¶ 9, Summit Technologies Inc., No. 9286 (Fed. Trade Comm'n, 1998) (challenging a patent pool with exclusive rights to license the incorporated patents).

ULR.<sup>44</sup> It is not clear that IPXI or the patent holders in a pool will have incentives to agree to list the à la carte offerings on terms that compete with the pooled ULR. Therefore, the Department cannot assess the degree to which IPXI's rule will mitigate any competitive risks.

Patent holders that grant IPXI restricted exclusive licenses will retain the right to license patents for uses outside the ULR's field of use. Depending on their scope, restricted licenses might allow for independent licensing and permit licensees to invent around one or more of the pooled patents, preserving competitive pressures on the pool.<sup>45</sup> However, the scope and importance of any particular restriction on IPXI's licenses will vary for each ULR and each technology. Therefore, the Department cannot prospectively assess the competitive impact of this feature of IPXI's proposal.

*Pooled ULRs That Are Coextensive with a Published Technical Standard.* IPXI's rules differ in a couple respects when a pooled ULR is coextensive with a published technical standard. First, only patents that are "necessary on technical or commercial grounds to conform to or implement the published technical standard (an 'essential patent')" may be included in such ULRs. IPXI will require that the patent holder provide an independent expert's opinion that confirms essentiality for IPXI to review. Second, IPXI will not require that pooled ULRs coextensive with a published technical standard be available à la carte in separate ULRs from each patent holder.<sup>46</sup> However, patent holders granting IPXI an exclusive license restricted to specific fields of use may retain the right to license the patent for other uses.

IPXI's definition of essentiality is consistent with other definitions of "essentiality" that the Department has favorably reviewed to exclude substitute patents from a pool to implement a technical standard.<sup>47</sup> If the experts engaged by patent holders objectively and accurately apply this definition of essentiality and the process is transparent and available for review by purchasers of pooled ULRs, then these pooled ULRs offered on IPXI's platform will likely contain only complementary patents and may procompetitively lower the total royalty rate to licensees.

With regard to the ability to license patents for other uses, the scope and importance of any particular restriction on IPXI's licensed field of use will vary for each ULR and each technology. Therefore, the Department cannot prospectively assess the competitive impact of this feature of IPXI's proposal.

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<sup>44</sup> Beeney Email (Jan. 15, 2013), *supra* note 16, ¶ 11.

<sup>45</sup> See 2007 ANTITRUST-IP REPORT, *supra* note 36, at 80.

<sup>46</sup> Previous proposals reviewed by the Department have all contained the option to license pooled patents independently. RFID Business Review, *supra* note 40, at 4; 2007 ANTITRUST-IP REPORT, *supra* note 36, at 79.

<sup>47</sup> RFID Business Review, *supra* note 40, at 4; 2007 ANTITRUST-IP REPORT, *supra* note 36, at 77. By definition, patents that are essential cannot have substitutes.

## 2. Setting Terms for Competing ULRs

IPXI has the potential to list competing ULRs. Its platform will be available to intellectual property holders in a variety of industries, and some of these IP holders and their IP assets may be horizontal competitors in the same technology market.

The listing of competing ULRs on IPXI by different patent holders raises competitive concerns.<sup>48</sup> IPXI could act as a common agent and ensure that accommodating terms are maintained across competing patent holders because it sets the licensing terms and schedule of each offering jointly with each patent holder. IPXI and the patent holders share the revenues from each ULR sold. IPXI and the patent holders could jointly profit by reducing competition between ULRs.

To avoid this outcome, IPXI plans to identify and exclude ULRs that compete with existing offerings on its exchange. IPXI will rely on its staff to identify ULRs that compete through a review of their fields of use and whether they share “equivalent functionality and equivalent achievement of business goals.” IPXI’s analysis will also consider prices and other factors from its market research to determine if ULRs compete. If this approach successfully identifies and excludes competing ULRs from IPXI’s platform through a transparent process, it is unlikely that IPXI will facilitate competitive harm as a common agent for patent holders of competing ULRs. If IPXI staff do not consistently identify and exclude competing ULRs, competitive risks would remain.<sup>49</sup>

## 3. Sharing Competitively Sensitive Information

In certain circumstances, the aggregation and dissemination of competitively sensitive information can facilitate price coordination or otherwise soften incentives to compete in technology or downstream markets.<sup>50</sup> In general, these concerns are mitigated when the information disseminated is historical and when the information is aggregated and published in a format that precludes identifying individual entities.<sup>51</sup>

IPXI intends to keep information acquired internally from interested parties through restrictions on access. IPXI members and staff will be barred from disclosing confidential or

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<sup>48</sup> The Department recognizes that there can also be efficiencies associated with listing competing technologies in separate offerings on the same exchange. For example, an IP exchange could become a “one-stop shop” to efficiently compare patents and their terms and to license technologies in specific industries.

<sup>49</sup> Although the Department has previously found that independent experts and nonexclusive licenses can minimize the risk of anticompetitive effects, other approaches may also be effective. At this time, the Department cannot state with confidence that IPXI’s approach (utilizing its own staff) will be effective.

<sup>50</sup> 2007 ANTITRUST-IP REPORT, *supra* note 36, at 81-82. Competitively sensitive information can include cost data, output levels, strategic planning, and prices of final products.

<sup>51</sup> See U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, STATEMENTS OF ANTITRUST ENFORCEMENT POLICY IN HEALTH CARE 50 (1996), available at <http://www.justice.gov/atr/public/guidelines/1791.pdf>.

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March 26, 2013

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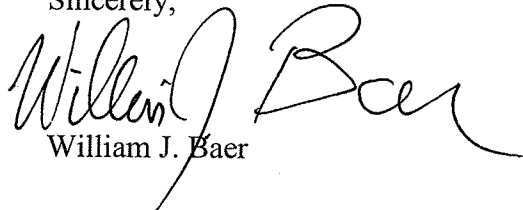
material nonpublic information obtained in connection with their role on IPXI. IPXI will prohibit patent holders from communicating with one another about the price or quantity of ULR contracts in either patent holder's offerings. IPXI will only publish historical consumption data in an aggregated form on a quarterly basis more than a month after the original transactions, and IPXI will not report aggregate data if specific purchases or individual companies can be identified. IPXI's rules should limit firms' access to competitively sensitive information.

### **III. Conclusion**

The Department cannot prospectively determine that there will be no adverse competitive effects from the operation of IPXI's proposed exchange. Therefore, though the proposal could potentially produce certain efficiencies, the Department withholds judgment at this time and declines to state its enforcement intentions.

This statement is made in accordance with the Department's Business Review Procedure, 28 C.F.R. § 50.6. Pursuant to its terms, your business review request and this letter will be made publicly available immediately, and any supporting data will be made publicly available within thirty (30) days of the date of this letter, unless you request that any part of the material be withheld in accordance of Paragraph 10(c) of the Business Review Procedure.

Sincerely,



William J. Baer